

Saimaa University of Applied Sciences  
Business Administration Lappeenranta  
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# **The Impacts of Russia's Instability on Finnish Exports to Russia**

Thesis 2015

## **Abstract**

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The impacts of Russia's instability on Finnish Exports to Russia, 34 pages, 1 appendix

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The objective of this study was to examine and value the dependency of Finnish exporting businesses about Russia's stability. The thesis focuses on the situation today and possible scenarios in the future. The work was done due to the personal interest in the matter.

The data for this study was collected from literature, newspapers, the Internet and by interviewing. The statistics were mainly taken from Finnish custom's web pages and up-to-date journals. The thesis was divided into two sections, theoretical and empirical part. The empirical part was done by interviewing and the interviewee was chosen due to his experience on the subject.

The outcome of the thesis was the analysis and valuation based on the study about the actual effects on the Finnish exporting to Russia. The conclusion is that Russia's instability has direct and indirect impacts on Finnish export business to Russia.

Keywords: Finnish exporting, Russian business environment, EU sanctions

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### Appendix 1

Questionnaire used in the interview

# **1 Introduction**

The trade between Finland and Russia, and previously between Finland and the Soviet Union, has always been a very important factor to the Finnish business. There are, however, problems and risks in Russian trade. Today the most significant risks are the political risks in Russian trade. Russia is an unpredictable trading partner and this is why it is important to study the risks that might be faced when Finland is exporting to Russia (Suorsa 2014).

Russia's political situation today is threatening western peace and harmony. As Finland is an export-dependent economy, in long-term the political risk that Russia creates is affecting Finnish companies' income. Today Russia holds under ten percent of Finland's export sector and that number is decreasing significantly. To Russia Finland exports food, chemicals, industrial machinery, paper, oil products, metal and metal products and transportation equipment. (The Economist 2014.)

The Russian political situation or risk, as well as Russian customers' financing problems have increased. Due to the fact that the weakening of the ruble is probably being used to and decrease of cross-border trade, customs issues are no longer the number one problem as it has been before. (Tulli 2014.)

## **1.1 Objective, Scope and Delimitations**

The purpose of this study is to find out how Russia's uncertainty affects the Finnish export to Russia today and within the next years. The area of exportation is not determined but export matters are covered generally. The research is conducted by using suitable theory sources of exporting to Russia like Finnish customs publications and statistics as well as Finland's treasury's publication on Russia's situation and its effects on Finnish exporting to Russia. Also source material of Russian political situation is used.

Russia's situation is described and analyzed. The study will not take into consideration the historical aspects a lot, but mostly focuses on today's situation and the future. When exploring exporting volumes, the study compares values

between the years 2012-2015. The EU's economic sanctions are also explained and the effect of these sanctions and effects on Finland are described.

## **1.2 Research Questions**

The main question this research aims to answer is: How does Russia's uncertain situation affect Finnish exports to Russia? And what is the impact on Finnish economy and exporting business? There are some unfortunate changes visible already in a big part of Finnish companies that are exporting to Russia.

The second question is to find out and determine what are the consequences and future scenarios of the situation from Finland's point of view? Is the situation fixable and why do Finnish companies fall into the same problems with ten to twenty year intervals? It is not the first time that a number of Finnish companies become too dependent on Russian trade.

This topic is really actual right now and it is important to find out answers to the above mentioned questions. Russia's situation is known everywhere and there have been many political discussions. The fact that trade between Finland and Russia has always been a remarkable factor for many Finnish companies also increases the importance of this research and not many have been written on this topic. However, the personal interest was the biggest reason for choosing the topic.

## **1.3 Theoretical Aspects**

The most important key concepts of this study are the situation in Russia including Russia's foreign policy, future speculations and the consequences of different scenarios, Finnish exports to Russia where the changes of the volume of exports is analyzed before and after the EU sanctions, the areas and their portions in exporting are also described. All of the EU sanctions and Russia's own sanctions against EU have been described and their effects on Finnish exports is analyzed.

As the studied matter is quite rapidly changing and also sensitive, the used literature is mostly found from the internet publications and for example on Finnish government's website and publications. The Finnish customs' publications is

used when exploring the exporting volumes and changes. When evaluating Russian politics, the most important literature source is a study conducted by Russia's former financial director, Aleksei Kudrin (translated into Finnish by Taneli Dobrowolski.)

The export to Russia and Russian business environment is examined by using a book called *Venäjän-viennin opas* which is written by the Finnish Russian Chamber of Commerce in 2011. The theory and researches from the book are applied and examined in this thesis.

#### **1.4 Research Methods**

The data of the research will be gathered through an interview, analyzes and exploring publications on the subject. Data that will be analyzed is mostly exporting volumes from publications that are found from Finland's cu-tom's web pages. As the subject is relatively new, there are not much literature found.

The method of this study is qualitative. The qualitative research method is used by describing in details some specific situations using research tools like interviews, surveys, and observations. The qualitative research aims to give the understanding of the researched subject. (Saukkonen 2015).

As the studied phenomena is relatively new, the empirical data is done via interview. The questionnaire for the interview is done after gathering enough information on the theory of the study. The questionnaire for the interview is based on the theory part and is divided into different themes

The basic idea of the questionnaire is to give some guidelines to the interview but not limit it too much. A ground rule for the interview is to let the interviewee tell about the matter quite freely and by relaying on the interviewee's expertise. The form of the interview is a themed interview (Saukkonen 2015).

#### **1.5 Structure of the Study**

The first part of the thesis introduces the background of the topic examined. It is demonstrated with a few figures as well as information gathered through various different sources. The second part is the theoretical part which introduces the

main concepts of the thesis. The concepts are Russia's business environment, Finnish exports to Russia and the EU sanctions. The third part is the empirical part which includes the introduction and some figures of Finnish forest industry when exporting to Russia and an interview. The different themes of the interview are based on the study. The third part also includes the conclusion and the outcome of the study. The structure is also demonstrated by figure 1.

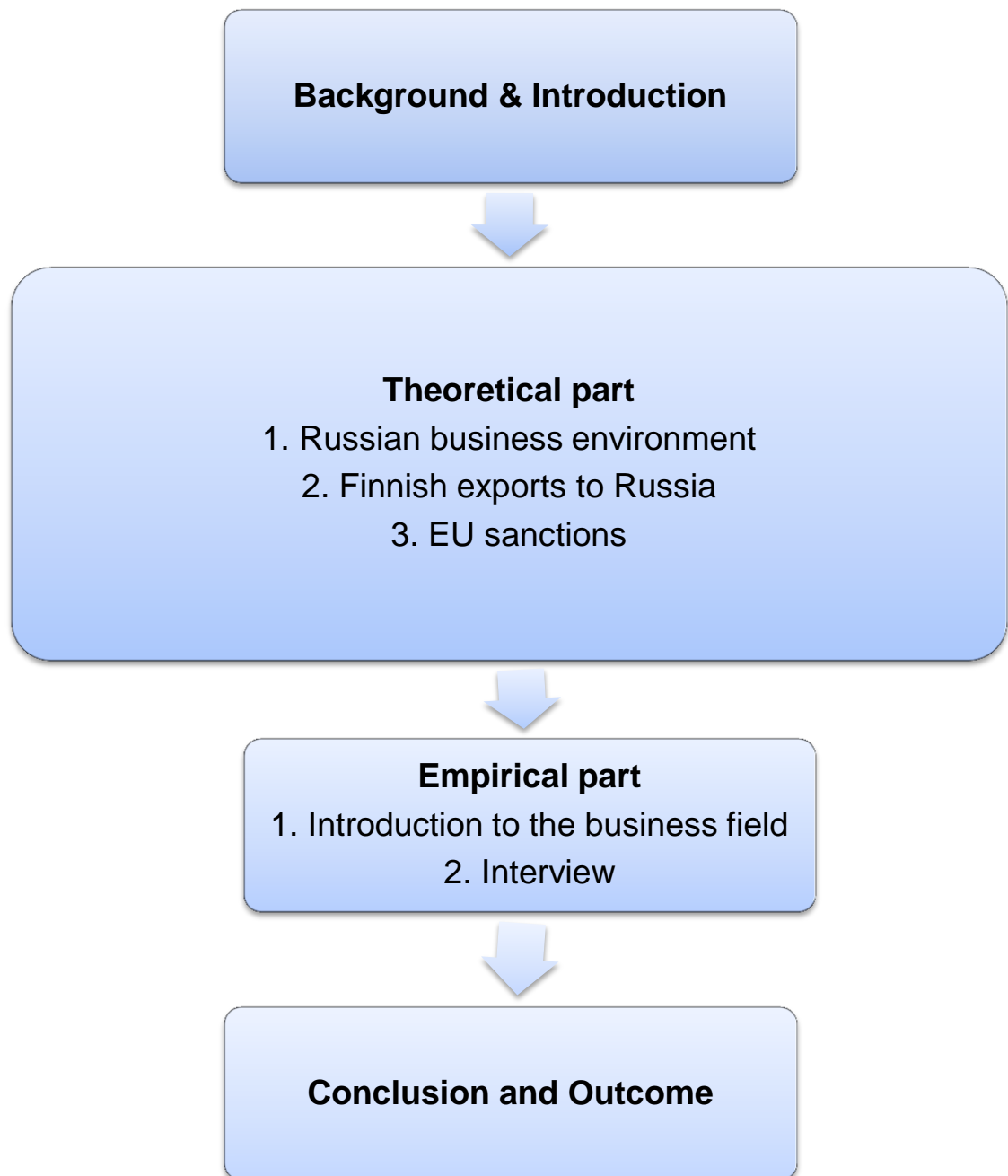


Figure 1. Structure of the study

## **2 Russia as Finland's trade partner**

In the past decade Russia has become wealthier which has increased the purchasing power of its inhabitants. This has led to Finnish companies' increasing interest on Russian markets and exporting new products to Russians (Ollus & Pyykkö 2005).

As Russia finally joined WTO (World Trade Organization) in 2012 it meant that the export and import customs would decrease. Due the joining to WTO and decreases in customs duties, the Ministry for Foreign Affairs has concluded that Finnish companies have been more eager to start expanding into Russian markets. (Yleisradio 2012.)

The economical collaboration between Russia and Finland is based on the contracts on trade. Since Finland is part of the European Union, Russia's relationship with the European Union affects highly the Finland-Russia trade collaboration (Ulkoasiainministeriö 2012).

## **3 Business Environment in Russia**

There are quite a few aspects that are actually affecting Russia's situation. The most recent one is the war against Ukraine, which seems to be a part of an ominous strategy to divide the West, or is it an irrational outbreak of paranoia about an imagined outside threat to Russia, maybe a desperate attempt to distract domestic opinion from the regime's political and economic failure? Whichever it is, the situation seems to be out of control and consequences of this war are affecting Finnish export significantly. (The Economist 2015).

Massive consequences of the Ukraine war are the sanctions that the European Union has imposed on Russia in order to get Russia to negotiate with the Eastern Ukraine and the Crimea to end the violence. Sanctions against Russia have so far been extended to individuals, businesses and organizations. Still these sanctions have not notably settled the situation, the European Union is willing to increase the number of sanctions. If the European Union decides to extend the



sanctions on the member countries' exports, it would also mean more problems for Finnish exports. (Sorsa 2014.)

The situation has not only started from Ukraine. The political crisis has started to escalate in 2012, when the first significant signs of Russia's upcoming financial crisis appeared. There are some suspicions on the reasons of Russia's real reasons for attacking Ukraine. It is suspected that the war was started just to distract Russians from the actual crisis that was going to happen in Russia. One point of view is that the war was started so the Russian government would overcome their citizens' beliefs in their countries greatness and power. (Dobrowolski 2012.)

In 2012 Aleksei Kudrin, Russia's previous financial director, ordered a document covering the description and results of an investigation of Russia's political and economic situation. The report forecasted dissatisfaction in the economic growth and a decreasing political leaders' popularity amongst Russians, especially among people living in the city areas. Later on, these factors led to the wave of protests and demonstrations. (Dobrowolski 2012.)

In a country where protests are not handled very well, new mass protests have had a significant effect on Russia's political crisis. People have noticed that they can have an impact on matters and that the gap between government and citizens is no longer as huge as it used to be. The phenomenon that the upper class is also protesting against the government is alarming since the oligarchy as the upper class is a significant support for Russia's economy and oligarchy. (Dobrowolski 2012.)

### **3.1 Foreign Policy**

What is quite alarming in Russia's foreign policy is the citizens' attitudes on Western society. The majority of the population feels that Russia is under a constant threat of western countries and due to that, Russia needs to have a strong military. Especially United States is seen as a strategic enemy. This is a way for Russian politics to influence people's minds and value anti-western atti-

tude which might lead to conflicts between west and Russia, as it already has. (Dobrowolski 2012.)

In Finland this has led to a heated conversation on whether or not to join the NATO. In case of joining the NATO or other western alliances, the relationship with Russia might be endangered. This could lead to Russia boycotting Finnish goods and services followed by weakening position of Finnish exports to Russia and financial difficulties in Finnish companies that have centralized their operations into Russian markets. (Dobrowolski 2012.)

### **3.2 Future of Russian Politics**

Aleksei Kurdrin's report also forecasts four future scenarios for the political crisis. First scenario is the *political reaction*. In that scenario the protesters drift to confrontation and the dependency of power is growingly on official authority's hands and the power of politicians who are promoting modernization is increasing. This scenario is classified as highly probable as the escalation of political violence has already started. (Dobrowolski 2012.)

Second forecasted scenario is called *fasten modernization*. Historical signs support this scenario and it is possible to happen if the protesters and oligarchy start having a dialog. This would also bring the opposition closer to the oligarchy. This would enable the modernization of the whole political and institutional system. The report forecasts this scenario to be unlikely as the political negotiation is already inflamed (Dobrowolski 2012.)

Third scenario is *radical transformation* which would follow for instance if the Euro zones partially collapsed and an economic crisis was followed by that. This could lead to total a meltdown of the raw material prices. This would have a remarkable effect on Russia and would probably result in loss of political control and complete transformation of the authority system. Because of Greece's current situation, this scenario is more likely to happen. (Dobrowolski 2012.)

Fourth scenario is known as *Slow Development scenario*, where political protests abate but it will not stop the political crisis. The characteristics of the crisis are still changing as long-term solutions become more significant. This scenario

is quite unlikely to happen, at least not yet as the protesters have not shown any signs of calming down. (Dobrowolski 2012.)

The latest events really support the fourth scenario: Greek Prime Minister Alexis Tsipras held a very friendly meeting with Vladimir Putin in the Kremlin Wednesday. Mr. Tsipras' visit yielded the political symbolism both sides were looking for, though it's unclear how much substance there will be for the struggling Greek and Russian economies. "A good deal of what we are seeing here is political theatre for the benefit of the European Union", says Sergei Zabelin, an expert at the Institute of Europe in Moscow. But there are important economic deals on the table. (Weir 2015.)

### **3.3 Risks**

Even if Russia's situation would abate, the future of Russia's economic situation looks quite dark. However, a remarkable share of Finnish companies are still doing business successfully in the Russian markets. As some Russian businesses have lost a lot of capital and are not able to meet the demand, Finnish companies can take their share of the new opening business areas. They still have to keep in mind that it is expensive and risky to enter the Russian markets, and that is why the risks need to be evaluated carefully. (Suomalais-Venäläinen kauppakamariyhdistys – SVKK ry 2009).

#### **3.3.1 Contacts**

Clarify your contracts and know your associates – It is important to understand who the stakeholders are. Are the stakeholders local or foreign and how the unstable situation would affect their liquidity? It is also important to make sure that the contracts are valid in crisis situations. Russia does not acknowledge the sanctions they have had from other countries legal, so if the company follows the sanction rules, it can be seen as breach of contract. (Rausti 2014.)

#### **3.3.2 Political risks**

Political risks and risk management in Russian markets are important to take into consideration. In the last decades Russia's risk classification has been decreasing to a more positive direction. It has been classified as fair. The current

position is still unknown as the situation in Russia is very unpredictable and the fluctuation is high. What is known is that when considering Russia's political risks, the political system and the structure of the economy should not be relied on. They both have many uncertainty factors. These factors cause political risk into the exporting business. (Suomalais-Venäläinen kauppakamariyhdistys 2009, p.214.)

### **3.3.3 Bureaucracy and corruption**

Bureaucracy and corruption are sanctions of unstable economic situation. In Russia, everything should still be done legally. Many companies have their own code of conduct and business ethics and corruption can be a risk for them leading to bad publicity or sanctions. Russia's current instability might lead to increasing amount of corruption. Even if bribery is cruel it is also a survival mechanism to Russians. Finnish exporters have to remember that it should not be like the same with them. Finnish exporters should not accept and obligate bribery in order to do business with Russians. (Suomalais-Venäläinen kauppakamariyhdistys, pp.219-220.)

### **3.3.4 Rouble risk**

High fluctuation of the exchange rate of rouble can cause further financial risks. The Russian central bank aims to direct the value of rouble in relation to euro and dollar. The aim is to prevent the fluctuation of the currency, which creates economic instability and uncertainty. If necessary, the central bank purchases or sells rouble in the markets in order to control huge fluctuations within one day. On the other hand, the central bank also wants to prevent the rouble getting too strong as strong rouble weakens the competitiveness of the domestic industry. The central bank prevents the strengthening of rouble by selling it which might also lead to inflation, where Russia's economy suffers (Kurronen, Latvala, Tuononen 2011).

The biggest factor affecting on rouble's fluctuation is the price of oil. When the price of oil increases, the incoming foreign capital increases and the value of rouble increases. This has also been seen as a negative side. When the oil

prices crashed in 2015, the value of rouble decreased which led to the decreasing of foreign investments (Kurronen et al. 2011)

## 4 Finnish Exports to Russia

Finland's total export value in 2014 was a little over EUR55.8 billion which only decreased by half a percent and it was only due to the decrease in the prices of exported goods. The actual volume of exporting from Finland actually rose by 2,3 percent (Tulli 2015). The amount of exported goods from Finland to Russia were valued at EUR4.6 billion in 2014. Decrease from previous year was 14 percent. The highest growth of export was in transportation equipment with an increase of 39 percent compared to the last year (2013). According to Finnish custom's statistics, every other export category decreased. Russia has long been Finland's largest trading partner, but today the number one trading partner is Germany (Tulli 2015). The changes in each export category are described in the Figure 2.

TITLE	PORTION (%)	CHANGE (%)
Chemicals and chemical products	20,4%	-10%
Other products	15,9%	-27%
Motors, industrial machinery and equipment	20,1%	-5%
Electronic machines and devices	10,9%	-9%
Paper and cardboard	10,6%	-9%

<b>Foodstuff and beverages</b>	<b>6,5%</b>	<b>-25%</b>
<b>Oil products</b>	<b>4,7%</b>	<b>-35%</b>
<b>Metals and metal products</b>	<b>5,6%</b>	<b>-16%</b>
<b>Transportation equipment</b>	<b>5,3%</b>	<b>+39%</b>

Figure 2. Finnish exports to Russia, change 2014 (Tulli 2015)

Finnish companies that are exporting to Russia are specialized in producing consumer end-products and investment goods. In all the other markets Finland is mostly exporting intermediate products to organisations. Exporting foodstuff to Russia have been a great asset for Finnish companies, as Russians value Finnish quality on food, but due to the sanctions, exporting foodstuff to Russia has reduced substantially (ETLA – Elinkeinoelämän tutkimuslaitos 2012).

The opportunities of Finnish companies' exporting business to Russia is dependent on the development of purchasing power of Russian consumers, the price competitiveness of Finnish products and the functionality of Russian markets from the point of view of foreign trade and direct investments. Finland's geographical location and the settled position of Finnish products in Russian markets is strongly supporting Finnish exporting. (ETLA – Elinkeinoelämän tutkimuslaitos 2012.)



Figure 3. Finnish exports to Russia 2014 (Tulli 2015)

#### 4.1 Transportation and Logistics – from Finland to Russia

There are a few transportation methods to use, when moving the goods to Russia. It is done via trucks, trains, vessels and as airfreight. Sometimes the truck traffic has increased so much that it has caused some troubles on the Eastern Finland's roads. Twice a year The Finnish-Russian Chamber of Commerce researches the logistic difficulties from Finnish exporters and the number one difficulty has always been the customs (Tiri 2010).

When planning the logistical matters when exporting to Russia, the customs, product certificates and export declarations and documentation needs to be carefully done. It is good to pay attention to the import duties in order to under-

stand what can be expected and why the goods do not always move as expected (Tiri 2010).

Among the customs bureaucracy, the geographical issues need to be taken into consideration too as the distances can be quite long. This can be seen in the costs. The further away the exporting goes from Saint Petersburg, the more flexibility needs to be reserved in the prices and lead times, also the warehouse costs might rise (Tiri 2010).

Logistics outside Saint Petersburg is challenging. Long distances, road maintenance, capacity shortage and finding decent priced and good warehouses are factors that need to be taken into consideration. Issues that increase the prices in logistics are the slowness and unpredictability of border crossing and customs duties, forwarder services' complexity and the weak availability of decent transportation equipment. (Tiri 2010.)

In order to avoid these problems it is good to make sure that the co-operation company offering the transportation and logistics services has functioning systems and experience in transportation and border crossing in Russia (Tiri 2010).

#### **4.1.1 Finnvera**

Finnvera is a state owned company specialized in financing. Finnvera offers financing for starting the business, growing the business, internationalizing the business and exporting risk management. Finnvera offers its services to Finnish companies that are interested in Russian markets. Russia is the biggest export guarantee market and internationalize financing target country. (Suomalais-Venäläinen kauppakamariyhdistys – SVKK ry 2009, pp.185-186.)

Export guarantee protects the party that takes the guarantee if the exported goods are left unpaid. Reasons for unpaid goods might be the foreign customer's financial difficulties or the buyer's unwillingness to pay. Sometimes the political or economic situation in the target country might lead to that the buyer cannot get the currency needed for the trade. The situations that might lead to this are the common shortage of the currency in the buyer's country, economic



sanctions, war or the foreign exchange limitations set by the authority. (Suomalais-Venäläinen kauppakamariyhdistys – SVKK ry 2009, p.214.)

Finnvera classifies the target countries according to country risk table. The risks are measured from 0 to 7, seven being the riskiest. Russia is classified as 4 – moderate (2015). In September 2011 the risk was 3/7. Other countries with the same risk classification are for example Colombia, Hungary, Bulgaria, Turkey, Tunisia and South Arica. (Finnvera Oyj 2015.)

## **5 Russia Sanctions by EU**

Due to the escalated situation in Ukraine, European Union made the decision to undertake restrictions because of Russia destabilizing Ukraine. The first sanctions became valid 1 August 2014 and the second became valid on 12 September 2014. The latest sanctions became valid on 24 July 2014 and 31 June 2014 (Ulkoasiainministeriö 2015). The sanctions are as following:

1. Restrictions considering capital markets. State owned financial institutions are forbidden to participate on financing some specific Russian organisations operating in war or oil industry.
2. Prohibition in importing and exporting defence equipment. The prohibition includes manufacturing and technical help on maintenance and offering military services to Russia or from Russia. Financing regarding any kind of military service is also forbidden.
3. Export restrictions in dual-use products. Dual-use products and technology's exporting to Russia is forbidden, if the products are or might be used or partly used militarily. Dual-use products are also forbidden to be exported to Russia for some specific companies that are manufacturing both, civilian and military products.
4. Export restrictions in products and services related to oil search and oil production. Prohibition includes specified technology products that are used in hadal oil search and production, arctic oil search and production or shale oil.
5. Exporting restrictions which EU defined after Russia illegally attached Crimea and Sevastopol into Russia;

- a. Equipment and technology that enable creating infrastructure in traffic, tele-communication and energy businesses
  - b. Exporting equipment and technology enabling utilization of oil, gas and mineral reserves' usage.
  - c. Offering travel business services in Crimea or Sevastopol is forbidden. Prohibition includes also cruise lines arriving specific harbours located in Crimea.
- 6. Investment restrictions;
  - a. Investing in companies or realties located in Crimea or Sevastopol is forbidden
  - b. Offering investment services to these investments is forbidden
- 7. Importing restrictions;
  - a. Products that origin from Crimea or Sevastopol
  - b. Financing, financial helping, admittance of insurances and after insurances is forbidden. (Ulkoasiainministeriö 2015.)

Sanctions also include a list of one-hundred-fifty people and thirty-seven organisations that are seen as threatening and weakening to Ukraine's territorial integrity, sovereignty and independency. Their resources have been frozen and it is prohibited to admit resources to them. These people are also forbidden to come into Ukraine. (Ulkoasiainministeriö 2015.)

## **5.1 Effects on Finnish exporting**

"7<sup>th</sup> of August 2014, Russia set out some importing prohibitions from EU, United States, Canada, Australia and Norway. The products prohibited were meat and meat products, milk and dairy products, root vegetables, vegetables, fruits, nuts, vegetable fat based food products, fish and crustaceans. Russia claims that the prohibition is valid for one year. The prohibition does not include importing done by individuals nor children's food. Later Russia announced that the prohibition does not include lactose free dairy products or seed potato". (Valtiovarainministeriö 2014.)

Although the direct effects of the sanctions on Finnish economy are relatively small, for the private sector the influence may be massive. The most affected business fields in Finland, that Russia's sanctions are affecting, are food industry and agriculture. In Finland, these two industries comprise a few remarkable companies of which business probably suffers from Russia's dominant situation. One example of a company whose business suffers is Valio (Weir 2014).

"Valio is Finland's hardest-hit company by Russia's ban on food imports from the European Union, designed to retaliate for the EU's adoption of third-stage sanctions over the Kremlin's Ukraine policies. If the blockade goes on for an extended period, the company will need to find alternative markets for the almost 250 million euros (\$330 million) worth of goods it sold to Russia last year, representing 20 percent of net sales". (Weir 2014.)

In 2013 Finland exported food products worth a bit over EUR 430 million to Russia. Valio's share of this was 81,4 percent (EUR 350 million). These numbers due to the fact that also Finnish agriculture suffers from Russia's sanctions. Dairy industry is the most important agricultural area in Finland regarding both, the total turnover and the exporting income (Valtiovarainministeriö 2014).

"Russia's sanctions have also affected other EU countries. The total value of food industry exporting to Russia was approximately EUR12.2 billion in 2013. After Russia's prohibitions food products valued about EUR5.3 billion are now banned from Russia and is going to be sold in EU's internal markets and other non-EU countries excluding Russia. This causes reduction pressure for the consumer prices of EU countries' food products as well as agricultural producer prices". (Valtiovarainministeriö 2014).

### **5.1.1 Short-term effects**

Importing prohibition of food products covers over thirty percent of Russia's meat and vegetables and over forty percent of agricultural consumption. In short-term Russia cannot substitute this kind of importing with its own production or importing from, for example Asia or Latin America. This leads to the fact that importation prohibition increases the prices of food products and speeds up the inflation. (Valtiovarainministeriö 2014.)

Within the couple of next year Russia's development is affected by the price decrease in the oil prices which leads to the strong weakening of Ruble, Ukraine's crisis and the sanctions related to that and the result of all that is the deep recession of Russian economy. The strong decreasing in Ruble and the trade sanctions might waken some interest on foreign direct investments. On the other hand, Russia has placed some new restrictions for foreign investments and the short-term risks might be too big for the investors (ETLA – Elinkeinoelämän tutkimuslaitos 2012).

Current problems reflect on economic development by weakening it. The Russian economy might strengthen temporary due to the gradually recovering global economic situation followed by the increase in oil prices and strengthens of Ruble. This phenomenon might give Finnish exports to Russia a positive turn in couple of years, but only temporarily. In 2014 Finnish exporting to Russia decreased by 14 percent, in 2015 it is forecasted to decrease by 10 percent and in 2016 also approximately 10 percent (ETLA – Elinkeinoelämän tutkimuslaitos 2012).

### **5.1.2 Long-term effects**

In long run, the price of energy and Russia's economic ability to strengthen its productive basis are affecting Russia's economic situation. Product and process innovations and the development of productive operations and increasing of profitability need structural reformation, liberation of economic and financial activity, allowing the foreign direct investments and positive investment atmosphere. (ETLA – Elinkeinoelämän tutkimuslaitos 2012.)

## **6 Finnish Exporting to Russia – Forest Industry**

Even if the common economic situation has stabilized lately, the crucial short term risks and uncertainty factors are more dependent on Europe's economic situation and Europe's paper markets continuous imbalance. The possible additional sanctions set by the EU and the United States to Russia, and the Russia's sanctions towards EU might affect negatively to forest industry exporting to Russia including wood exporting. (Hänninen & Viitanen 2014.)

Even though the sanctions might not affect directly to forest industry, the increasing prices of the consumer goods and the increasing insecurity will probably slow down the private sector's consuming, which has been the motor of Russia's economy. For the forest industry the effects are mostly on the sawn timber business (Hänninen & Viitanen 2014).

As the rouble has weakened, the Russian sawn timber producer's competitiveness has increased also domestically. If the EU sanctions against Russia would apply to Russia's sawn timber exporting to EU, the Finnish sawn timber exporting to Europe would possibly increase (Hänninen & Viitanen 2014).

One increasing business segment for this forest industry business is the cardboard business. From Finland the cardboard exporting is forecasted to increase by three percent. The biggest exporting country for Finnish cardboard business is Germany. Russia is holding second place. When concerning the global markets of cardboard the exporting is, as said, increasing in 2014. To Russia the exporting of cardboard has been relatively on the same level in 2014. Russia's political instability causes uncertainty in exporting to Russia which holds approximately ten percent of the Finnish cardboard exporting business (Hänninen & Viitanen 2014).

Other effects Russia's instability has on the forest industry are that Russia exports approximately 75 percent of the imported wood from Finland. After Russia joined the WTO in 2012 the amount has been increasing steadily. The WTO membership has clarified the wood customs and so the importing has become easier. (Hänninen & Viitanen 2014.)

Although the wood exporting to Finland from Russia has been increasing, this year (2015) it should decrease due to the high availability of Finnish wood. The Russian wood has actually been more expensive than domestic wood, but Russia's recession has lower the prices of Russian wood. The fluctuation of Russian rouble and the crisis in Ukraine has not had significant effect on the amount of wood importing from Russia as in the raw wood trade with Russia, there are different quotas, customs and licenses which are normally more important than currencies. (Hänninen & Viitanen 2014.)

## 7 Experiences of Company X

The empirical data is gathered via interview. The interviewed person was chosen due to the expertise of the Russian markets and he is dealing daily with the exporting matters from Finland to Russia. Some statistics and notes from previous years have been examined in order to compare the effects and the trends of the Russian exporting.

To be able to see some concrete development of the company x's analysis of the Russian markets during a specific time, some material was used from the notes of the company's monthly meetings. These are explained via time frame in figure 4.





Figure 4. Time frame

### 7.1 The interview

The Interviewed person is working as a Regional Director of his division in Company X. His geographical responsibility area is Central and Eastern Europe. He claims that Russia is the biggest and most important market of his re-

sponsibility area, size wise and because of the proximities of the Company X's factories in Finland, Russia is one of their key markets.

### **Effects of the sanctions to the business**

When asking about the effects of the sanctions, the interviewee replied that as forest industry products are not in the sanction list there was no direct impact. However, there were other things that were impacted a lot on their corporation and export business to Russia. One of the most important things was the volatility of the exchange rate. Which made the import export business very difficult.

Secondly the instability of the banking system. At some point there was a situation where the currency was missing. So basically if a Russian company had a lot of rubles and wanted to pay debts and invoices to the exporting company in Finland it could take from a couple of days to two weeks before the Russian company was able to gather the money from different banks.

Another thing, which was a link between the volatility of the exchange rate and the lack of plummeting in the banking system was that the Russian customers wanted to pay and decided to do it. This process might take three to four days for a bank to get ready and get the needed amount in euro or US dollars. The prices of those currencies changed to totally different and so the customer did not have all the money to pay the needed amount. It was very difficult to plan how much rubles is needed to be able to secure the transfer.

Putting a lot of Russian banks to the sanction list was also a complication to the business. For example the transfer from a Russian bank that was on the sanction list was of course rejected by the Finnish banks. Finnish banks were not accepting those transfers. This led to the fact that Russian customer had to send the money via another bank which was approved by the European Community.

Lastly the credit money vanished. For example the investment money for new acquisitions. It is not very common that local banks give the loan without the safe guarantees from the other banks. Basically the investment money started to be an issue for the Russian businesses. If the Russian customer has leasing



in one bank the other banks were questioning if this particular bank can continue the leasing due to the sanctions. Now it is clearer what can be done and what cannot be done, but back when the sanctions were fresh there was some hesitation.

### **Exporting businesses that the crisis in Russia is affecting the most**

The sanctions do not have a direct effect on the forest industry business. The interviewee says that the biggest impact is on the food business. When talking about exporting to Russia. It is a planned action by Russian government in order to keep the European food away. That creates a situation where the food prices sky rocketed in Russia.

It is clearly seen that there is a lot of black market and some people really started to earn a lot of money. For example if you go to restaurant in Russia, you might suddenly notice that the biggest sea food producer is Belarusian that has no access to sea. All the food from Europe is imported and exported from Belarus or Serbia.

### **Changes in Russian business habits**

The interviewee say that there are changes in his Russian counter partners behavior. He says that they are much more careful. This is not the first time Russian currency is under pressure, but this is the first time the volatility is so high. At some point the Russian ruble was as cheap as on hundred rubles per dollar which is the lowest it has gone in a very long time. For Russians it was a shock as it went from thirty to a hundred in a blink of an eye. That created reluctance to be too much exposed.

Every time Russian business partners talk about a new business they think if they really need it, is it their core customer, what is the safety and security of that business and so on. They do not look up to the possible gaining and the profit. They are looking on how much can they loose on it. The crisis also changed the approach to the pricing. It was already in 2007-2008 and even before that the prices where expressed in a foreign currency. They were using a standard unit which was equal to Dollar. Now it is something similar.

To avoid exchange rate the Russian companies prefer the payments in cash and if that is not possible there is some kind of mechanisms implemented in their contract that are allowing them to change the price according to the fluctuation of the currency. This was not so obvious before the crisis.

### **Concrete problems that the crisis caused**

The interviewee says that there are of course some concrete problems. Logistical problems are one major problem. He says that the collapse of the business creates the situation that it is more difficult to get trucks and containers. If the corporation is on a certain level, there are trucks coming in and coming out. Then suddenly the trucks are not waiting anymore and you cannot say that we cannot deliver and ask the trucks to wait a little bit. The situation is that some of the truck companies are going bankrupt, some of them are just going to another area and changing the destinations. It is much more difficult to provide the normal service to the markets.

Secondly, there are different volumes today. What is seen in Russia now-a-days is that the customers are buying exactly what they need at the moment. If there is any kind of a shadow over the deal or the customer sees that they have some time before they run out of the supplies they will wait because they do not know what is happening tomorrow. That is changing the way of doing business in Russia, significantly. They order smaller amounts in order to minimize the risk.

### **Fluctuation of the situation during the crisis**

The interviewee says that there has not been a big fluctuation during the crisis. Obviously there were some fluctuations with the money flow but that was affected by the exchange rate. The volatility of the currency creates a certain stops in transferring money, which is very critical to the exporter and very critical to the customer. The customer stops transferring money because they think it is just temporary and the exchange rate comes down but this is when the exporters start thinking what if it is not temporary and it will go up. Besides the currency related fluctuation, other fluctuations have not been noticed.

## **Russian consumers' consumption habits during the crisis**

There are some differences in which sort of products are bought in Russia during the crisis and which kind of products the demand has dropped. The interviewee says that when looking at Russia, the overall consumption dropped around twenty percent which is a lot. Obviously all kind of luxury product consumption dropped. In food industry there are more supermarkets where you can buy loose products, for example when going to a supermarket, the Russian customer buys the cheapest product which is not usually ready packed but the customer can buy just the amount that they need and they will be packed in a plastic bag. Especially mid-class has been very much influenced by that. The first savings were pushed towards consumption.

## **Further risks**

The interviewee thinks that it is unlikely that the crisis would go any further. The fear is that this is a long lasting situation. But there is no quick solution to solve this. The situation in Ukraine is stabilizing but nothing is happening in order to solve the issue. That might cause that it will develop into a long lasting crisis for Russia. This is just something that an exporting company has to see from aside and wait.

## **Positive effects of the crisis**

The positive effect is that this is forcing Finnish exporting companies to get rid of all middlemen and all kind of sub-distributors, the interviewee says. It is always easier to work with the direct customer. In Russia for many years there was a tradition to have a lot of "in-between" guys because the customers were complicated or there were some hidden agreements and that why there were a lot of companies because there is a lot of people that needed to earn.

When the crisis is so deep and the prices are skyhigh because of the exchange rate, the motivation of the company to save some money and go into a direct co-operation is much bigger, which is very well seen. From the exporters' side this is a much safer way of doing business as it is easier to know what is hap-

pening with the customer and the exporter has a dialog with the stake holder and there are no so called filters in between.

### **Current situation with company x's exporting to Russia**

This particular exporting corporation had big plans to grow and now all the big plans are put on ice. The export has a very small growth compared to the previous years but that is still several percent less than the corporation was hoping and aiming for two to three years ago.

The corporation current set up is not to believe in fast growth but just maintaining the cooperation with the customers and slowly growing with them. Because they are of course also finding the way on how to do the business in the current situation. It is about adjusting the situation in every case. First there is the shock and now everybody is trying to survive in the given circumstances. Now when the situation is not getting worse, customers are happy and trusting the future and surviving.

## **8 Conclusion**

It is clear that the current instable situation in Russia, EU sanctions and Russia's sanctions towards EU are affecting Finnish exports in many ways. The implications however seem to vary a lot what comes to the different business areas. For example for Dairy products and other agricultural items the implications can be severe whereas to other business areas such as forest products and machinery items impacts are smaller. This is due to the selective sanction protocol Russian government has set up.

A surprising observation is also that Russia's recession economic situation has also had some positive effects on Finnish exporting businesses operations. Some of the positive points have made the exporting process easier and a bit faster as Russian businesses have cut down the intermediaries. Besides making the process easier to carry out, it has also had an impact on the costs. The companies do not have to pay the agents and middlemen for their services.

When looking at the big picture statistically a big difference is not yet seen. The export that Finnish companies do, other than food products, are not directly affected by the EU sanctions. On the other hand the consumption of Russian consumers has decreased and is decreasing all the time and this will have long term effects on businesses in Russia and due to this Finnish exporting, as Finland exports mostly investment goods to Russia (Figure 3, p. 15)

The events that have happened in Russia have destabilized the trust of Finnish companies towards Russia as a market. The unpredictability of the markets is seen once again. The market situation seems to be changing a lot which makes the risk evaluation difficult for Finnish companies. The situation expresses the importance of risk evaluation development and management in Finnish companies that are exporting to Russia.

In addition to the direct business performance effects the sanctions affect to the Finnish export companies indirectly also. Due to the sanction policy Russian economy has entered to recession, which has resulted the slow down of the economic development and suffering domestic markets. Russia's important export product, oil is seeing a global price decrease which is making the situation even worse. Russian companies lack capital, causing cash flow problems and delayed payments and credit risks for Finnish export companies.

Due to the uncertainty of the situation it is hard to predict how the situation will develop. For Finnish exporting companies the worst case scenario is that this is a long lasting situation. For Finnish companies there is no quick solution to solve this. This is just something that an exporting company has to see from aside and wait.

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## Appendix 1: Questionnaire used in the interview

1. In 2014 EU set sanctions towards Russia, which was followed by Russia setting sanctions towards EU. How did these events effect on your exports to Russia?
2. Which exporting businesses do you see the crisis in Russia affecting the most?
3. Can you see some changes in the way that your Russian business partners do business?
4. What are the concrete problems with the exporting business that Russia's instable situation has caused? Like financial things, exchange rates, trust issues
5. How has the situation been fluctuating during the crisis?
6. Are there differences in the effects between different products of end use areas, what kind?
7. Do you foresee any further risks that the crisis may cause and how could Finnish exporting companies be prepared for those?
8. Do you see any positive effects on the issue?
9. What is the current situation regarding Company X's exports to Russia?